

# China's renminbi in the age of digital capitalism

From the perspective of the history of currency and global economic development, the ideas and suggestions for promoting the Chinese economic development through the internationalization of the Chinese yuan, or renminbi (RMB) are not unusual.

The entry of international capital and the expansion of international trade will promote the RMB globally from the demand side, hence deepening the extent to which the RMB will be internationalized. This process is conducive to the opening-up of China's capital market and the adjustment of its long-term economic structure.

However, the view of ANBOUND researchers is that, under the circumstances that the global economy is undergoing, which is profound changes taking place and the trend of anti-globalization constantly evolving, the internationalization of the RMB

should consider the aspects of development and competition of both geo-economic and geo-currency.

Under the current international environment, the developmental ideas and focus of RMB internationalization need to be re-examined.

In terms of global economic and financial development trends, RMB internationalization, like China's foreign trade and foreign investment, will encounter great geographical resistance.

## **Geo-dominance**

ANBOUND's chief researcher Mr Chen Gong pointed out that in the gradual decline of globalization represented by liberalism, the economic and social development of various countries has become more characterized by geopolitical development than anything else. This is true for all issues involving geo-space, and there is competition for spatial advantages.

The market as an integral part of space and must

be constrained by this. The Crisis Triangle of “urbanization-capital surplus-economic crisis” will then manifest its effect. Therefore, modern geopolitics is actually geo-capitalism, one with strong monetary and financial motives hidden behind.

In this context, even if there is a new power in the world, such as the rise of the RMB as a new geo-currency, the right to change the order and rules in the international financial arena will still be based on geo-dominance instead of moral space.

This also means that the trading rules and methods of the original international financial market will be changed. Looking from this angle, the problems faced by Huawei today, as well as the more complicated financial troubles and problems that may arise against China in the future, are by no means accidental.

The same is true of the suppression and widespread interference on and against the Belt and Road Initiative. In fact, the recent turmoil in Hong Kong, representing the largest offshore market in the RMB, has also reflected that the existing geopolitical pattern is changing. Hence, the RMB internationalization requires more independent development, rather than relying on the existing

path under the rules of the U.S. dollar system.

With the gradual decline of the super-sovereign currency represented by the U.S. dollar and the rise of the geo-currencies represented by the “post-gold standard”, the geopolitical trend of sovereign currency has become increasingly significant. Under such circumstances, the development process of RMB internationalization will also be closely tied to China’s geopolitical environment. This means that regions covered in China’s Belt and Road Initiative will be the main area of focus for the future internationalization of the RMB.

## Re-easing

The current dominant international trade and capital are mainly from developed countries in Europe, the United States and Japan. It is foreseeable that the major international currencies from these regions, as well as the RMB will see more competitive and cooperative relations in the future. The incremental space of the RMB in overseas markets need to be taken from the markets of the countries covered in the Belt and Road initiative.

With the “re-easing” of global currencies, the easing policies of central banks around the world have increasingly shown the “currency cold war” trend. This signifies that various financial markets will build monetary high walls to prevent capital from impacting their respective domestic financial markets and economy. Although the opening-up of China’s capital market will attract the inflow of international capital, more capital will tend to opt for currencies with lesser risks.

Fluctuations in the RMB exchange rate in the offshore market have already reflected this trend. Although the People’s Bank of China can intervene in the offshore market in Hong Kong through cooperation with the Hong Kong Monetary Authority, it is hard to imagine that it can establish such close cooperation with other offshore markets like London and New York to “control” the offshore RMB market.

This “currency war” tends to make the RMB face competition between financial markets represented by major geopolitical currencies. Then, with the intensification of the long-term uncertainty of U.S.-China trade frictions, the flow of capital will bring even more negative impact to the Chinese market, which is not something that China can change even if it increases its opening-up.

Therefore, the direction of the RMB internationalization needs to take root in the Belt and Road regions more deeply affected by China's geography, in order to form the long-term influence of the RMB.

In addition, in the case of the rapid development of the digital economy, the market space of digital currency as a new geo-currency is also a possible direction for the internationalization and development of the RMB. As ANBOUND has emphasized in the past, digital currency is actually an external form of geo-currency (from gold coins to paper money to digital currency), which functions to compete with the sovereign currencies of central banks. This reflects the geo-capital influence behind the digital currency.

The rise of digital currencies is, in fact, a trend in the post-gold standard era. In this new geospatial arena, the RMB and existing sovereign digital currencies are placed at the same starting line and both face competition from multinational corporations as well as new payment giants. Under this circumstance, the development of an RMB-based digital currency will also create new space for the internationalization of the RMB.

# Geo-capitalism

**The promotion of the RMB internationalization will be beneficial to the healthy development of the Chinese economy and finance.**

However, in the case where changes are occurring in the international environment, it is necessary for China to consider from the perspective of the development of geo-capitalism and promote the RMB internationalization on the bases of the developmental law of geo-currency.